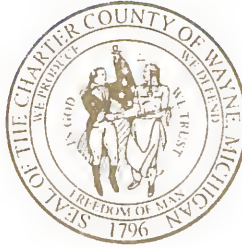


# Wayne County Commission

Gary Woronchak  
Chairman



Pamela Lane  
Director

## OFFICE OF POLICY RESEARCH & ANALYSIS

### COMMITTEE MEMBERS

Raymond Basham (C)  
Al Haidous (VC)  
Irma Clark-Coleman  
Tim Killeen  
Diane Webb

February 12, 2018

### NOTICE OF MEETING

### OF THE

### COMMITTEE ON AUDIT

**Wednesday, February 14, 2018 – 9:30 a.m.**

**Hearing Room 704, Guardian Building, 500 Griswold, Detroit, MI 48226**

Commissioner Raymond Basham, Chairman of the Committee on Audit, has scheduled a meeting of the Committee on Wednesday, February 14, 2018 at 9:30 a.m. in Hearing Room 704, Guardian Building, 500 Griswold, Detroit, MI 48226 to consider the following:

- A. Roll Call
- B. Approval of the January 31, 2018 meeting minutes
- C. Unfinished Business
- 1. Communication dated January 29, 2018 (received January 29th) from Marcella Cora, Wayne County Legislative Auditor General, forwarding the Corrective Action Plan (CAP), and the Auditor General's Assessment, for the Wayne County Department of Corporation Counsel-Outside Legal Services Performance Audit; the report is dated January 16, 2018; it is advised that the report is subject to the review, discussion, suggestions and recommendation to be received and filed by the Wayne County Commission. (2017-57-012)

**Notes:** This meeting is called in accordance with provisions of the "Open Meetings Act", Act No. 267, Public Acts of 1976.

The County of Wayne will provide necessary reasonable auxiliary aids and services, such as signers for the hearing impaired and audiotapes of printed materials being considered at the meeting, to individuals with disabilities at the Commission meeting upon five days notice to the Clerk of the Commission. Individuals with disabilities requiring auxiliary aids or services should contact.



D. New Business

1. Communication dated February 8, 2018 (received February 12th) from Marcella Cora, Wayne County Legislative Auditor General, forwarding a copy of the Office of the Legislative Auditor General's Limited Analytical Review report of the Wayne County Treasurer's Office, Investment Reports for Fiscal Year 2017; the report is dated February 7, 2018; it is advised that the report is subject to the review, discussion and recommendation to be received and filed by the Wayne County Commission. (2018-57-900)

E. Such other matters as may be properly submitted before the Committee

F. Public Comments

G. Adjournment

Respectfully submitted,

Darcel Brown, Legislative Research Assistant (224-0848)

**Note:** In accordance with the provisions of Rule 3, "The Chairperson of a Committee, when requested in advance of any given meeting, may permit a person making such request to address the Committee on any matter on the Agenda. Such address shall not be longer than the time allotted by the Chairperson, subject to the approval of the Committee".

**COMMITTEE ON AUDIT**

**February 14, 2018**

**B. Approval of the January 31, 2018 meeting minutes**

**MINUTES  
COMMITTEE ON AUDIT**

**Wednesday, January 31, 2018 - 9:30 a.m.**

A. Roll Call: 9:30 a.m.

Raymond Basham (C)	– Present
Al Haidous (VC)	– Present
Tim Killeen	– Present
Irma Clark-Coleman	– Present
Diane Webb	– Present

B. Clark-Coleman/Webb      **Approved.** The January 17, 2018 meeting minutes. Motion Carried.

C. Unfinished Business

D. New Business

1. Webb/Killeen      **Passed For The Day.** Communication from Marcella Cora, Wayne County Legislative Auditor General, forwarding the Corrective Action Plan (CAP), and the Auditor General's Assessment, for the Wayne County Department of Corporation Counsel-Outside Legal Services Performance Audit. (2017-57-012) Motion Carried.

Commissioner Basham requested that the item be passed for the day so that the Auditor and Corporation Counsel can meet to correct the findings.

E. Such other matters as may be presented before the Committee.

Marcella Cora, Legislative Auditor General, told the committee that the Audit Plan Risk Assessment questionnaires have been sent out and her department is awaiting for the responses to returned.

F. Public Comments

G. Adjournment      Haidous/Webb

The meeting was adjourned at 9:40 a.m.

Respectfully submitted,

Darcel Brown  
Legislative Research Assistant

Pamela Lane  
Director

- E. Such other matters as may be properly submitted before the Committee
- F. Public Comments
- G. Adjournment

Respectfully submitted,

Darcel Brown, Legislative Research Assistant (224-0848)

**Note:** In accordance with the provisions of Rule 3, "The Chairperson of a Committee, when requested in advance of any given meeting, may permit a person making such request to address the Committee on any matter on the Agenda. Such address shall not be longer than the time allotted by the Chairperson, subject to the approval of the Committee".

**COMMITTEE ON AUDIT**

**February 14, 2018**

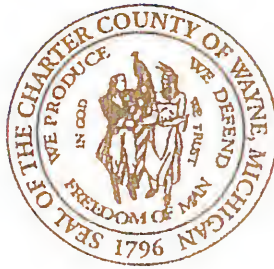
**C.1.- The Corrective Action Plan (CAP), and the Auditor General's  
Assessment, for the Wayne County Department of Corporation  
Counsel-Outside Legal Services Performance Audit**

**(2017-57-012)**



Office of Legislative  
**Auditor General**

MARCELLA CORA CPA, CIA, CICA, CGMA  
AUDITOR GENERAL



500 GRISWOLD STREET  
STE. 842 GUARDIAN BLDG  
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

January 26, 2018

**COMMITTEE ON AUDIT TRANSMITTAL LETTER**

Wayne County Committee on Audit:

Enclosed is our final copy of the Corrective Action Plan (CAP), and the Auditor General's Assessment, for the Wayne County Department of Corporation Counsel – Outside Legal Services Performance Audit. Our report is dated January 16, 2018; DAP No. 2017-57-012.

We are pleased to inform you that management and staff from the Departments of Corporation Counsel and Management & Budget, Risk Management Division offered their full and complete cooperation during the review. If you have any questions, concerns, or desire to discuss the report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purpose.

MARCELLA CORA, CPA, CIA, CGMA, CICA  
Auditor General

**REPORT DISTRIBUTION**

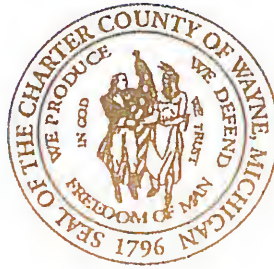
**Department of Corporation Counsel**  
Zenna Elhasan, Corporation Counsel

**Department of Management & Budget**  
Claire Mason Lee, Director of Administration, Benefits and Disability Administration & Risk  
Management  
Ashley V. Johnson, Assistant Division Director of Grants and Contract Management

**Wayne County Commissioners**

Office of Legislative  
**Auditor General**

MARCELLA CORA CPA, CIA, CICA, CGMA  
AUDITOR GENERAL



500 GRISWOLD STREET  
STE. 842 GUARDIAN BLDG  
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

January 16, 2018

**DAP No. 2017-57-012**

Honorable Raymond Basham, Chairman  
Audit Committee  
Wayne County Commission  
County of Wayne  
500 Griswold  
Detroit, MI 48226

Subject: **Corrective Action Plan**, including the Auditor General's Assessment, November 15, 2017, for the Wayne County Department of Corporation Counsel – Outside Legal Counsel Services.

Dear Chairman Basham:

In accordance with Government Auditing Standards issued by the Comptroller General of the United States, and the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, the Office of Legislative Auditor General (OAG) requested the Wayne County Department of Corporation Counsel – Outside Legal Counsel Services to submit a Corrective Action Plan (CAP) for the recommendations identified in the Wayne County Department of Corporation Counsel – Outside Legal Counsel Services Performance Engagement, dated July 6, 2017. Thirteen recommendations were addressed to the Wayne County Department of Corporation Counsel and one (1) recommendation to Wayne County Department of Risk Management.

The CAP was provided as requested. Attached is a Summary and Assessment of the CAP prepared by the OAG. The summary schedule includes: the recommendations; management's comments on the findings and recommendations; management's action taken or planned; whether management has or intends to implement the recommendation; responsible person(s)/area; implementation or targeted implementation date; and the Auditor General's assessment.

Honorable Raymond Basham, Chairman  
DAP No 2017-57-012  
January 16, 2017  
Page 2 of 2

Our assessment of the 14 recommendations found that management took sufficient action on five (5) recommendations, four (4) have not been addressed and five (5) are in process. Therefore, a follow-up review is deemed necessary.

Respectfully submitted,



Marcella Cora, CPA, CIA, CICA, CGMA  
Auditor General

Attachment

Cc: Zenna Elhasan, Director, Wayne County Department of Corporation Counsel  
Claire Mason Lee, Director of Administration, Benefits and Disability Administration &  
Risk Management  
Ashley V. Johnson, Assistant Division Director of Grants and Contracts, M&B

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
16-01 We recommend management within Wayne County Corporation Counsel implement policy and procedures that document (1) the need for the outside legal services, and (2) the process used for selecting a specific outside legal firm to provide the services in order to ensure transparency and fairness within the selection process.	Disagree	The Office of Corporation Counsel will conduct an internal audit to determine the circumstances which require outside counsel to be retained and will draft an internal policy that will address said circumstances. The Office of Corporation Counsel selects outside counsel by evaluating which law firm is the most qualified to provide the services required in the most cost-effective manner possible. The Office of Corporation Counsel will include this selection method in its internal policy.	Yes	Administration	In-Process	During the OAG's review, management stated they will draft an internal policy that will require Corporation Counsel to document both the circumstances that require outside counsel to be retained as well as the selection process for retaining outside counsel. However, the document which supports the decision would be protected by the attorney work product privilege.  Based on the limited review of the action taken, it appears management is in process of addressing the recommendation.  However, a follow-up review may be necessary in the near future to verify that the described action has fully occurred.
16-02 Corporation Counsel when selecting firms to provide outside legal counsel and rates are a consideration should ensure that the contracts are based on the rates in the proposals as long as they are not in excess of the maximum \$200 rate.	Disagree	The Office of Corporation Counsel does not believe it should charge different law firms different rates, regardless of what rate was bid. The Office of Corporation Counsel pays \$200/hour to all outside counsel. This is consistent with most municipal legal departments and it supports small businesses, many of which are headquartered in Wayne County.	No	N/A	Not Implemented	The OAG commends Corporation Counsel for capping outside legal fees at \$200/hour. However, we still believe that if a law firm, responding to a Request For Qualifications (RFQ), submits a billing rate less than \$200/hour, the subsequent contract should be executed at the lower quoted billing rate. If it remains Corporation Counsel's intent to pay \$200/hour to all outside legal counsel, then we suggest Corporation Counsel consider revising the RFQ language to state the hourly fee will be \$200/hour. Corporation Counsel indicated that the RFQ was posted on November 28, 2017; therefore, they would not be able to revise the RFQ nor did they believe it necessary.

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
16-03 We recommend management within the Department of Corporation Counsel:  (A) Implement procedures to ensure that legal service contracts \$50,000 and greater are presented to the Wayne County Commission for approval in accordance with the Procurement Ordinance and that services are not performed or payments made until Commission approval.	Disagree	Procedures are in place to request Commission approval for contracts that equal or exceed \$50,000. Services are not paid for until an approved contract has been executed, however, there are times when services must be provided before an approved contract is in place such as responding to a complaint or other court filings in the time required by the relevant court rules.	N/A - Procedure already in place		Not Implemented	While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.  Based on the OAG's discussion with Corporation Counsel, they indicated that they disagree with this recommendation as they stated they have procedures already in place to ensure contracts greater than \$50,000 are submitted to the Commission for approval. However, as noted in our initial engagement, we identified a contract over \$50,000 that did not come to the Commission for approval prior to services being performed.  During the OAG's review, while we did not note any new legal services contracts greater than \$50,000 that were not presented to the Commission for approval, we did note an instance where work was performed by outside legal counsel prior to Commission approval. The Commission ultimately approved the modification retroactively.  Corporation Counsel believes their procedures are sufficient to ensure contracts greater than \$50,000 are presented to the Commission for approval.  While the OAG disagrees with Corporation Counsel's assertion about the risk related to the underlying finding and associated

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
						recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.
(B) Implement procedures to ensure that no legal services are performed without an approved contract in place.	Disagree	Services are not paid for until an approved contract has been executed, however, there are times when services must be provided before an approved contract is in place such as responding to complaint or other court filings in the time required by the relevant court rules.	No		Not Implemented	Based on the OAG's discussion with Corporation Counsel, they indicated that they disagree with this recommendation as they stated they have procedures already in place to ensure services are not paid for until an approved contract is in place and there maybe instances where services must be provided before an approved contract is in place.  While the OAG disagrees with Corporation Counsel's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.
(C) Implement procedures to ensure legal service contracts are awarded only to firms that appear on the Approved Attorney List.	Agree	The Office of Corporation Counsel is preparing a contract review checklist and contract approval guidelines for all County contracts, including legal services contracts. Ensuring that every legal services contract issued is with a vendor who is on the approved attorney list will be included as a check point on the checklist and included in the approval guidelines.	Yes	Administration	In-Process	Based on our discussion with Corporation Counsel, the OAG confirmed that Corporation Counsel is preparing a contract review checklist that will include contract approval guidelines including ensuring contracts are awarded to only legal firms who appear on the approved attorneys list.  The OAG obtained an Approved Attorneys List, dated 6/21/17, and noted that no legal services contracts have been awarded to attorneys who did not appear on that list.

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
16-04 We recommend within the Department of corporation counsel implement procedures to ensure that all invoices for services are in accordance with the approved legal services contracts' scope of service.	Agree	The Office of Corporation Counsel has drafted an RFP for e-billing software which will allow for automated review of invoices to ensure compliance with contracts.	Yes	Administration	In-Process	<p>Based on the limited review of the action taken, it appears management is in process of addressing the recommendation.</p> <p>However, a follow-up review may be necessary in the near future to verify that the described action has fully occurred.</p> <p>Based on the OAG's discussion with Corporation Counsel, we confirmed that Corporation Counsel is in the process of procuring an electronic billings system. The OAG reviewed a copy of the Request for Proposal and confirmed that the specific objectives of the electronic billing system will help facilitate a comprehensive review of invoices including ensuring that services billed are in accordance with the scope of services.</p> <p>The OAG also confirmed with Corporation Counsel that until the system has been procured and implemented they will ensure legal service billings are for services approved in the scope of service by ensuring entries coincide with the scope of services as agreed to in the legal services contract and for the matter related to that contract.</p> <p>Based on our limited review of the action taken, it appears management is in the process of addressing the recommendation</p>



**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
16-05 We recommend management within Corporation Counsel:  (A) Implement policy and procedures to ensure billings for legal services are received timely, adequately reviewed and approved, and that reimbursement/ payments are made only on invoices within authorized charges.	Agree	The Office of Corporation Counsel has drafted an RFP for e-billing software which will allow for automated review of invoices which will assist in timely delivery of invoices and expedited review, approval and payment of invoices that contain authorized charges.	Yes	Administration	In-Process	<p>of implementing an automated system to process legal service billings.</p> <p>However, a follow-up review may be necessary in the near future to verify that the described action has fully occurred.</p> <p>Based on the OAG's discussion with Corporation Counsel, we confirmed that Corporation Counsel is in the process of procuring an electronic billings system. We reviewed a copy of the Request for Proposal and confirmed that the specific objectives of the electronic billing system will help facilitate a comprehensive review of invoices.</p> <p>The OAG obtained a copy of Corporation Counsel's Request For Proposal (RFP) For Electronic Billing Solution. The following specific objectives were included in the RFP's Scope of Services:</p> <ul style="list-style-type: none"> <li>• Identify noncompliant billing entries per the Department of Corporation Counsel's Legal Services Contract and Outside Counsel Protocol.</li> <li>• Ensure a 3 – 5% reduction in fees paid to legal service providers by identifying billing errors and rejecting payment as a result of</li> </ul>



**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
						<p>the identified billing errors.</p> <p>Corporation Counsel also stated that until the system has been procured and implemented they will ensure legal service billings are received timely, adequately reviewed and approved for payment for services in accordance with contract provisions.</p> <p>Based on our limited review of the action taken, it appears management is in the process of addressing the recommendation of implementing an automated system to process legal service billings.</p> <p>However, a follow-up review may be necessary in the near future to verify that the described action has fully occurred.</p>
(B) Consider implementing an electronic billing tool to help review outside legal counsel invoices to ensure they are in compliance with Corporation counsel guidelines.	Agree	The Office of Corporation Counsel has drafted an RFP for e-billing software which will allow for automated review of invoices to ensure compliance with contracts.	Yes	Administration	Implemented	<p>Based on the OAG's discussion with Corporation Counsel, we confirmed that Corporation Counsel is in the process of procuring an electronic billings system. We obtained a copy of the Request For Proposal (RFP) for the Electronic Billing Solution. Corporation Counsel is anticipating awarding of a contract in the spring of 2018.</p> <p>Based on a limited review of the action taken, management appears to have taken sufficient action to address the</p>

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
						recommendation."
16-06 We recommend management within the Department of Corporation Counsel:  (A) Implement procedures to ensure contracted legal services are billed only for approved outside legal counsel.	Agree	The Office of Corporation Counsel has drafted an RFP for e-billing software which will allow for automated review of invoices to ensure compliance with contracts. In addition, invoice reviewers and approvers will be reminded of the already existing policy that invoices will be approved only when the services billed are in compliance with the contract, including the identity of the attorney performing the work.	Yes	Administration	Implemented	Based on the OAG's discussion with Corporation Counsel, the OAG agrees that an automated billing system will help with the review of invoices. Reminding invoice reviewers and approvers of the requirements prior to approving will help ensure services are billed in accordance with contract provisions. As part of our review, we selected five (5) invoices submitted by outside legal counsel firms. We verified the billings were for authorized services rendered and firms were on the approved outside legal counsel list.  Based on our limited review of the action taken, it appears management has taken sufficient action to address the recommendation.
(B) Review prior billings and determine whether the county should be reimbursed for the unauthorized services or whether the county should have received the 25% learning curve discount.	Disagree	The Office of Corporation Counsel will continue to monitor when new attorneys in a firm are utilized to determine whether a learning curve discount is warranted. However, there has not been a circumstance where unauthorized services were provided.	No		Not Implemented	The OAG noted that for new contracts and modifications to existing legal services contracts, Corporation Counsel has revised Exhibit B of the legal services contract as follows. "The County allows the Firm the discretion to assign attorney members with the matter specific legal expertise to represent the County in this matter." Corporation Counsel stated they will monitor the utilization of new attorneys in a firm to determine if a learning curve discount should be applied.  However, Corporation Counsel has decided not to review prior billings in order to

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
16-07 We recommend the Department of Corporation Counsel:  (A) Implement a procedure to ensure amounts paid to outside legal counsel and reported to the commission per the budget instructions reflect the amount actually paid to the outside legal counsel firm per the general ledger.	Agree	The Office of Corporation Counsel will ensure that future commission reports include an additional column noting the date of the invoice and the actual pay date processed by M&B versus merely including the date Corporation Counsel seeks payment or the date of the invoice.	Yes	Administration		determine if the county should have received the 25% learning curve discount. While we disagree with management's assertion about the risk related to the underlying finding and associated recommendation, it appears management has assumed the risk inherent in the finding/recommendation by not implementing any corrective action.
		Corporation Counsel provided the OAG with a copy of their report <i>Outside Legal Service October 1, 2016 to September 30, 2017</i> . We noted that the following columns were added to this report: (1) Contract Start Date; (2) Contract End Date; (3) (Total Amount paid on Life of All Contracts (Including Modifications; and, (4) Date Blanket Order Issued.				We compared the report to Enrolled Appropriation Ordinance No. 2017-635 budget language to determine if all requirements were met.  Based on the OAG's review, we noted that amount listed as payments to outside legal counsel during FY 2017 are based on the blanket order number that is directly connected to the legal contract itself.  Based on a limited review of the action taken, management appears to have taken sufficient action to address the

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
(B) Work with the Wayne County Commission as to how the required information can be submitted per the budget instruction and still safeguard the information form disclosure in instances where disclosure would not be in the best interest of the county.	Agree	The Office of Corporation Counsel can work with the commission to discuss the type of information that can and should be included in its annual report regarding the type of legal services provided by outside law firm which does not compromise the attorney-client or attorney work-product privilege.	Yes	Administration	Implemented	<p>Based on the OAG's review, we confirmed that Corporation Counsel has agreed to work with the Commission to discuss the type of information to include in their annual report. In addition, based on our review of the 2017-2018 listing of contracts report the Commission required information was included.</p> <p>Based on a limited review of the action taken, management appears to have taken sufficient action to address the recommendation.</p>
16-08 We recommend the Department of Corporation Counsel review the Litigation Protocol to address any inconsistencies and ensure that all applicable requirements are being met.	Agree	The Office of Corporation Counsel is reviewing its legal services agreement template and making the necessary modifications to address any inconsistencies, among other things.	Yes	Administration	In-Process	<p>During the OAG's review we compared the Litigation Protocol to the Legal Service Contracts and found that the information listed for the reimbursement cost per copy is consistent. However, we noted some requirements of the Litigation Protocol were not met. Specifically, the billing format requirements nor were not consistent with the requirements within the Outside Legal Counsel Protocol.</p> <p>In addition, Corporation Counsel stated a Microsoft Office version of the Case Management Report will be provided to all firms to promote uniformity in the information they provide. In addition, the</p>

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
						<p>format of the bills will become more standardized once the e-billing system is implemented.</p> <p>Based on our limited review of the action taken, it appears management is in the process of addressing the recommendation of addressing any inconsistencies within the Litigation Protocol and ensure that all applicable requirements are being met.</p> <p>Therefore a follow-up review may be necessary in the near future to verify that the described action has fully occurred.</p>

**Wayne County Department of Corporation Counsel  
Outside Legal Counsel Services  
Performance Engagement**

**Summary and Assessment of  
CORRECTIVE ACTION PLAN**

Auditor General's Recommendation	Management's Comments on Findings and Recommendations	Management's Action Taken or Planned	Management has or Intends to Implement the Recommendation Yes/No	Responsible Person(s)/ Area	Implementation or Targeted Implementation Date	Auditor General's Assessment
<p>16-09 We recommend Wayne County Risk management a procedure to ensure all professional liability insurance certificates are received for all executed legal services agreements, the coverage limits are reviewed to ensure they are within the contract, the county is listed as an additional insured and loss payee, and copies are maintained by the county.</p>	<p>Agree</p>	<p>As part of the contract review and approval process, Risk Management staff will advise the contracting department about the need to correct COIs, obtain updated COIs and ensure that coverage information listed in an agreement matches that which is listed on the COI</p>	<p>Yes</p>	<p>Risk Management; Director and Manager</p>	<p>Implemented</p>	<p>During the OAG's review of insurance certificates, we randomly selected five outside legal counsel firm's insurance certificates for compliance with the contract provisions. We noted that all five (5) insurance certificates were in accordance with the contract provisions. However, we noted that management stated that the automobile insurance is on a case by case basis due to it not being applicable in some cases.</p> <p>Based on a limited review of the action taken, management appears has taken sufficient action to address the recommendation.</p>

**COMMITTEE ON AUDIT**

**February 14, 2018**

**D.1.- The Office of the Legislative Auditor General's Limited Analytical  
Review report of the Wayne County Treasurer's Office, Investment  
Reports for Fiscal year 2017**

**(2018-57-900)**

Office of Legislative  
**Auditor General**

MARCELLA CORA CPA, CIA, CICA, CGMA  
AUDITOR GENERAL



500 GRISWOLD STREET  
STE. 842 GUARDIAN BLDG  
DETROIT, MICHIGAN 48226

TELEPHONE: (313) 224-8354

February 7, 2018

DAP No: 2018-57-900

Honorable Eric R. Sabree  
Wayne County Treasurer  
County of Wayne, Michigan  
400 Monroe, 5<sup>th</sup> Floor  
Detroit, MI 48226

Re: Limited Analytical Review Engagement of the Wayne County Treasurer's Office,  
Investment Reports, Fiscal Year 2017, October 1, 2016 - September 30, 2017.

Dear Honorable Eric R. Sabree:

**Introduction**

The Wayne County Office of Legislative Auditor General (OAG) has performed a Limited Analytical Review of the Wayne County Treasurer's Office, Investment Reports for Fiscal Year (FY) 2017; October 1, 2016 – September 30, 2017. We obtained copies of the FY 2017 Quarterly Investment Reports from the Wayne County Treasurer.

**Scope of Work**

The procedures we performed regarding this engagement were limited to an analytical review of investments managed by the Treasurer's Office and does not constitute an audit or review in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States or the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Because the procedures performed did not constitute an audit or review, we do not express any conclusion(s) or opinion(s) regarding the investment activities reported in the Treasurer's report.

We reviewed the: 1) completeness and thoroughness of the report; 2) report's compliance with applicable state statutes and the county's investment policy; and, 3) trends in investment balances and interest earnings.



### **Background**

The Treasurer is required by Michigan Public Act 20 of 1943, as amended, and Wayne County's Comprehensive Investment Policy Section 117 to invest in only certain types of investments. The Comprehensive Investment Policy states as an objective for the cash management portfolio: "to regularly exceed the average return on three-month U.S. Treasury Bills."

The Wayne County Treasurer's Office stated the primary objective of the County's investment activities is the safety of principal, while providing liquidity and return on investment. The County makes deposits with financial institutions that consist of checking accounts, savings accounts, money market funds, cd's, municipal bonds, and government agency securities. For each quarter, the Federal Deposit Insurance Corporation (FDIC) insurance was limited to \$250,000 per banking institution.

The Treasurer manages three portfolios: General Operating, Building Authority, and General Reserve (Bond Reserve). Only the General Operating Portfolio is available to meet the county's current obligations. The other two are restricted to specific purposes.

- The Building Authority Portfolio is primarily comprised of unspent jail bond proceeds issued by the Authority.
- The General Reserve Portfolio is primarily used to pay the debt service on sewage disposal system bonds and cash that is restricted for forfeiture foreclosure activities.

Michigan Public Act 213 of 2007, effective December 27, 2007, requires the Treasurer to provide quarterly a written report to the governing body, the Wayne County Commission, concerning the investment of county funds. However, a time period to submit the report is not stipulated.

In November 2016, the County Treasurer established an Investment Management Agreement with Robinson Capital Management. According to Treasurer Officials, the firm manages approximately 15% of the county's investment portfolio and has expertise in the fixed income markets and the investment of public funds in Michigan. The Treasurer is responsible for managing and making investment decisions on the remaining 85% of the county's portfolio.

In conjunction with the Investment Management Agreement, a Custody Agreement was established with Huntington Bank. This agreement established a trust account with Huntington Bank to act as custodian of funds and securities for all investment purchases. The 3<sup>rd</sup> party safekeeping arrangement provides additional security of funds.

### **Submission of Quarterly Report**

The applicable state statute, P.A. 213 of 2007, does not specify what information is specifically required for communication to the governing body or a specified date for submission. Based on our review, it appears the Treasurer's quarterly reports for fiscal year 2017 were complete and thorough in its reporting of the investments managed by the Treasurer.

The Treasurer's FY 2017 Quarterly Investment Reports were communicated to the Chair of the Wayne County Commission as follows:

<b><i>Reporting Period</i></b>	<b><i>Date of Communication</i></b>
1 <sup>st</sup> Quarter, October 2016 – December 2016	February 23, 2017
2 <sup>nd</sup> Quarter, January 2017 – March 2017*	July 31, 2017
3rd Quarter, April 2017 – June 2017*	July 31, 2017
4th Quarter, July 2017 – September 2017	December 18, 2017

\* Sent simultaneously/together to Chair of Commission

### **Compliance with State Statutes and County Ordinance**

As promulgated by law, the Treasurer is responsible for managing and investing the county's three cash portfolios: General Operating, Building Authority, and General Reserve (Bond Reserve). Based on our review of the quarterly reports, it appears the investments and investment types were in compliance with state statutes.

The Wayne County Comprehensive Investment Policy, Section 117-2(b) directs the following:

*"The cash management portfolio shall be designed to regularly exceed the average return on three-month U.S. Treasury bills."*

We found the average rate of return for investments within all three investment portfolios were not in compliance with the policy during several months within the fiscal year (see chart below). Further, the Building Authority portfolio was out of compliance with the county's Investment Policy from March 2017 through the end of the fiscal year.

### Schedule of Investment Portfolio Average Yields For the FY 2017

Fiscal Year	Balance \$ in millions			Weighted Average Yield			Average Monthly 30 Day T- Bill*	Average Monthly 90 Day T- Bill*	Average Monthly Fed Funds Rate*
	GEN	BUDG	RES	GEN	BUDG	RES			
2016									
2017									
Oct	\$ 401.00	\$ 58.00	\$ 29.80	0.71	0.72	1.34	0.24	0.33	0.40
Nov	\$ 369.40	\$ 57.70	\$ 28.90	0.70	0.64	1.34	0.29	0.45	0.41
Dec	\$ 372.00	\$ 57.70	\$ 29.14	0.63	0.69	1.09	0.41	0.51	0.54
Jan	\$ 427.29	\$ 57.73	\$ 29.22	0.63	0.68	1.00	0.49	0.51	0.65
Feb	\$ 439.66	\$ 57.30	\$ 34.27	0.67	0.68	0.83	0.47	0.52	0.66
Mar	\$ 388.79	\$ 57.29	\$ 30.65	0.70	0.66	0.81	0.65	0.74	0.79
April	\$ 397.89	\$ 57.27	\$ 36.62	0.75	0.66	0.82	0.73	0.80	0.90
May	\$ 375.78	\$ 57.11	\$ 39.04	0.78	0.70	0.81	0.71	0.89	0.91
June	\$ 379.34	\$ 57.19	\$ 43.72	0.96	0.77	0.98	0.82	0.98	1.04
July	\$ 382.87	\$ 57.15	\$ 39.61	0.95	0.74	1.08	0.95	1.07	1.15
Aug	\$ 443.74	\$ 57.09	\$ 39.83	1.05	0.78	1.12	0.96	1.01	1.16
Sep	\$ 624.25	\$ 57.02	\$ 38.70	1.11	0.81	1.10	0.98	1.03	1.15

\*Source: federalreserve.gov

#### According to a Treasurer Official:

In late 2016 and early 2017, the Federal Reserve began aggressively raising the federal funds rate. These rate increases directly affect the T-Bill rate, but not any locked-in rate in the County's investment portfolios. In this type of environment, there will be a lag in the yields of the County's large portfolio. The yield rate for our portfolio is an average rate over time while the T-Bill rate is a "snap shot rate" at a specific time.

In addition, officials stated they were instructed to keep the Building Authority Portfolio investment types liquid in case any funding was needed for the jail project. As a result, higher earning yields from instruments such as long term certificates of deposit were not pursued. These types of instruments would have increased the portfolio's average yield.

#### Trends in Investment Balances and Earnings

##### Increase in Investment Portfolio Balances

The portfolio balances managed by the WCTO increased by \$129.89 million from FY 2016 to FY 2017 (see chart below). The majority of the increase is in the General Operating Portfolio, which increased a total of \$122.37 million or 24% from FY 2016 to FY 2017.

**Schedule of Investment Portfolio Balances  
For Fiscal Years Ending September 30, 2016 and 2017  
(In millions)**

Portfolio Name	FY 2017	FY 2016	Increase / (Decrease)
General Operating	\$ 624.25	\$ 501.88	\$ 122.37
Building Authority <sup>1</sup>	57.02	57.97	(0.95)
General Reserves (Bonds)	38.76	30.29	8.47
<b>FY Total</b>	<b>\$ 720.03</b>	<b>\$ 590.14</b>	<b>\$ 129.89</b>

Source: Wayne County Treasurer's Office, FY 2016 and FY 2017 Investment Reports

According to a Treasurer Official:

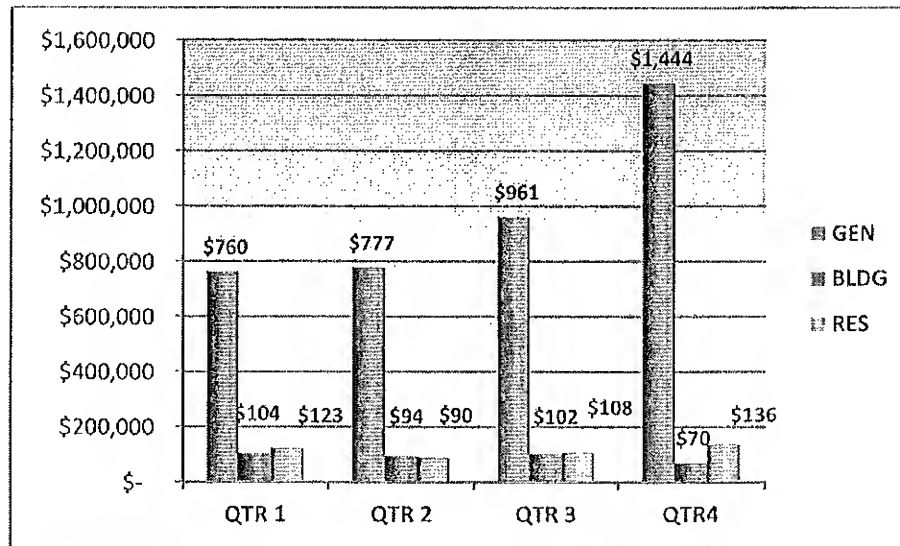
There are many factors that explain the increase in the General Operating portfolio and why the fiscal year ending balance changes from one year to the next. There was a significant increase in current collections from taxing jurisdictions (municipalities) year over year. The best explanation of this would be timing, as year over year total taxes would only increase a few percent. A second reason is a significant increase in auction proceeds year over year. A better economic climate and increasing real estate values have made auction purchases more attractive and expensive.

Net Interest Earned During Fiscal Year

During fiscal year 2017, net interest (interest less amortization of premium) earned on the three portfolios was \$4.77 million. The majority of the net interest earned was attributed to the General Operating Portfolio, which represented \$3.94 million, or 83% of total interest earned for the fiscal year. Comparatively, during FY 2016, net interest earned on the three portfolios was \$3.52 million. This represents an increase in interest earned from FY 2016 to FY 2017 of \$1.25 million or 35.5%.

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**Schedule of Quarterly Interest Earned by Portfolio  
During Fiscal Year 2017  
(In thousands)**



**Views of Responsible Officials**

We shared the report with the Treasurer Official who provided responses to our inquiries.

**Conclusion**

It is our opinion that the Treasurer is in full compliance with the State of Michigan's public acts and investment risk appears to be sufficiently managed.

We did find all three investment portfolios were not in compliance with the Wayne County Comprehensive Investment Policy for several months throughout the fiscal year. However, only the Building Authority Portfolio remained out of compliance at fiscal year-end.

On behalf of the OAG, we would like to thank the officials in the Wayne County Treasurer's Office for their cooperation during the engagement.

Respectfully Submitted,

*Marcella Cora*

Marcella Cora, CPA, CIA, CICA, CGMA  
Auditor General

cc. Melanie Kersey, Chief Deputy Treasurer  
Carl Stafford, Interim Deputy Treasurer - Financial Services  
John Kravitz, Assistant Deputy Treasurer - Financial services  
Wayne County Audit Committee